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SUBJECT: STATOIL TARGETS TURKEY FOR A SOUTHERN GAS CORRIDOR

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Sensitive But Unclassified. Please handle accordingly.

¶1. (SBU) SUMMARY: In a May 3 meeting with the Ambassador, Statoil Country Manager Per Myrvang said that Statoil was seriously looking at the Turkish market for commercializing Shah Deniz Phase II gas volumes when Azerbaijan's Shah Deniz Phase II begins producing in 2011-12. While there are a number of obstacles to arranging the commercialization of this potential gas in Turkey and Europe, Statoil, as a key South Caucasus Pipeline-Shah Deniz partner, is optimistic. Statoil's interest comes at a time when there is a sense of urgency to assure delivery of Azerbaijani gas to southern Europe. End Summary.

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Turkey as Southern East-West Energy Corridor  
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¶2. (SBU) Myrvang said the Shah Deniz partners (BP is technical operator) had agreed to move ahead on a test drill aimed at identifying the amounts of gas available at that field, which would in turn determine how far beyond Azerbaijan and Turkey the gas might be sent. Myrvang said Turkey currently faced an over-supply of take or pay natural gas, but based on growing demand and expiring contracts, it could be a good market fit for 2011-2012 when the Shah Deniz group would be aiming to market 12-20 BCM pa of incremental gas. Depending on supply, the Statoil rep thought Turkey could be a conduit for gas to Greece/Italy, Central Europe via Nabucco, and/or even a LNG processing facility at Ceyhan - targeting Europe or the U.S. (and perhaps also commercializing gas from Iraq on the Kirkuk-Ceyhan corridor). He noted that the favorable economics of Caspian gas pipelines decline relative to other sources the longer the transit distance. Myrvang said Statoil would build off existing commercial arrangements and contacts in Europe to discuss Caspian gas when it is feasible to do so.

¶3. (SBU) The Statoil rep cited a number of challenges to doing business in Turkey. He said that Turkey needed natural gas storage to handle peaking in demand, which is now imperfectly managed using LNG storage and old gas reservoirs. Myrvang said the GOT was finally undertaking a large, appropriate storage facility under the Salt Lake near

Ankara, with World Bank assistance. Myrvang said there were ambiguities for marketing the natural gas into Europe because the new EU Natural Gas Directive prohibits joint sale of gas in the EU (i.e., blocking sale by consortium). Moreover, he said Turkish current law would have to be changed to allow an incremental Turkish contract with Azerbaijan. Myrvang concluded that delivering gas to Turkey could still be commercially very attractive for the Shah Deniz consortium, but there were still issues to iron out between the partners.

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BOTAS lacks leadership  
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14. (SBU) Building on a theme we hear increasingly, Myrvang said the status and capacity of Turkish state pipeline company BOTAS was uncertain. He noted that the company lacks leadership because the GOT has allowed successive (relatively weak) acting Director Generals to hold the top position, and seemed unable or unwilling to replace the last DG who retired 1.5 years ago. Myrvang blamed BOTAS' problems completing BTC on weak sub-contractors (not always chosen based on competence and capacity). The Statoil rep pointed out that the pending transfer of BOTAS gas import contracts required under current law made it unclear who would be the buyer on behalf of Turkey for future gas volumes.

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Urgency on Azerbaijani Gas  
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15. (SBU) The Ambassador described how the Secretary in her recent visit and DAS Byrza in an earlier visit stressed the

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urgency of moving forward with Azerbaijani gas to preempt Gazprom filling new inter-connectors to southern or central Europe. He said an Italy-Greece-Turkey-Azerbaijan conference had been proposed to build confidence; Italy had expressed interest in hosting such a conference, but no clear timing had been established (refs). The Statoil rep said a conference could be useful, particularly for Turkey and Azerbaijan. He said Statoil has done a lot of business with Italy and the rest of Europe, so new deals would be done on a commercial basis and would not require IGA's. Myrvang also said that Gazprom made deals on a commercial basis and viewed Turkey as an important market where it would seek to extend its existing contracts.

WILSON